Manitoba's position on:

International and Interprovincial Trade

Hon. Howard Pawley
Premier of Manitoba

Annual Conference of First Ministers
Halifax, Nova Scotia:
November 28-29, 1985

86-1077/

TRADE

MANITOBA POSITION PAPER

FOR

FIRST MINISTERS' CONFERENCE

NOVEMBER 28-29, 1985

November 21, 1985

CONTENTS

		PAGE
1.	Introduction	1
2.	Manitoba Exports by Product Category	3
3.	Manitoba s Major Exports (1984)	4
4.	Manitoba's Major Markets (1984)	5
5.	Background	8
6.	Priorities and Recommendations	18
7.	Conclusions	21

INTRODUCTION

The Manitoba Government recognizes the importance of trade to the Canadian economy and to Manitoba. On a per capita basis, Canadians are the largest traders in the world. Exports currently account for approximately 30 percent of our Gross National Product. In 1984, roughly half of Canada's GNP growth was due to exports.

The contribution of exports to provincial economies varies. In Manitoba we consider the 20 percent contribution that exports make to our Gross Domestic Provincial Product to be extremely important. Trade statistics present some well-known measurement problems at the provincial level, but it can be said with certainty that exports make a significant contribution to the diverse and dynamic character of the Manitoba economy. As is evident from Figures 1 and 2, our major exports include not only food products like wheat, pork, cattle and corn, but range from primary products like nickel, lumber and electricity through to manufactured goods, including agricultural machinery, vehicle parts, aerospace and computer assembly and parts, newsprint, transport equipment, and telephone equipment and parts.

Furthermore, we believe that exports have the potential to make an even greater contribution to the economies of the provinces and Canada. Realizing this potential requires that the basic ingredients for improved export performance be present. Over the past four years the Government of Manitoba has made trade development a priority area within its overall economic development efforts.

In light of the importance of trade and trade development to Canada and Manitoba, the Province of Manitoba has been concerned for some time about mounting trade protectionism worldwide. We are particularly concerned about the impact that market restrictions might have on the economy of our province and on employment opportunities for Manitobans.

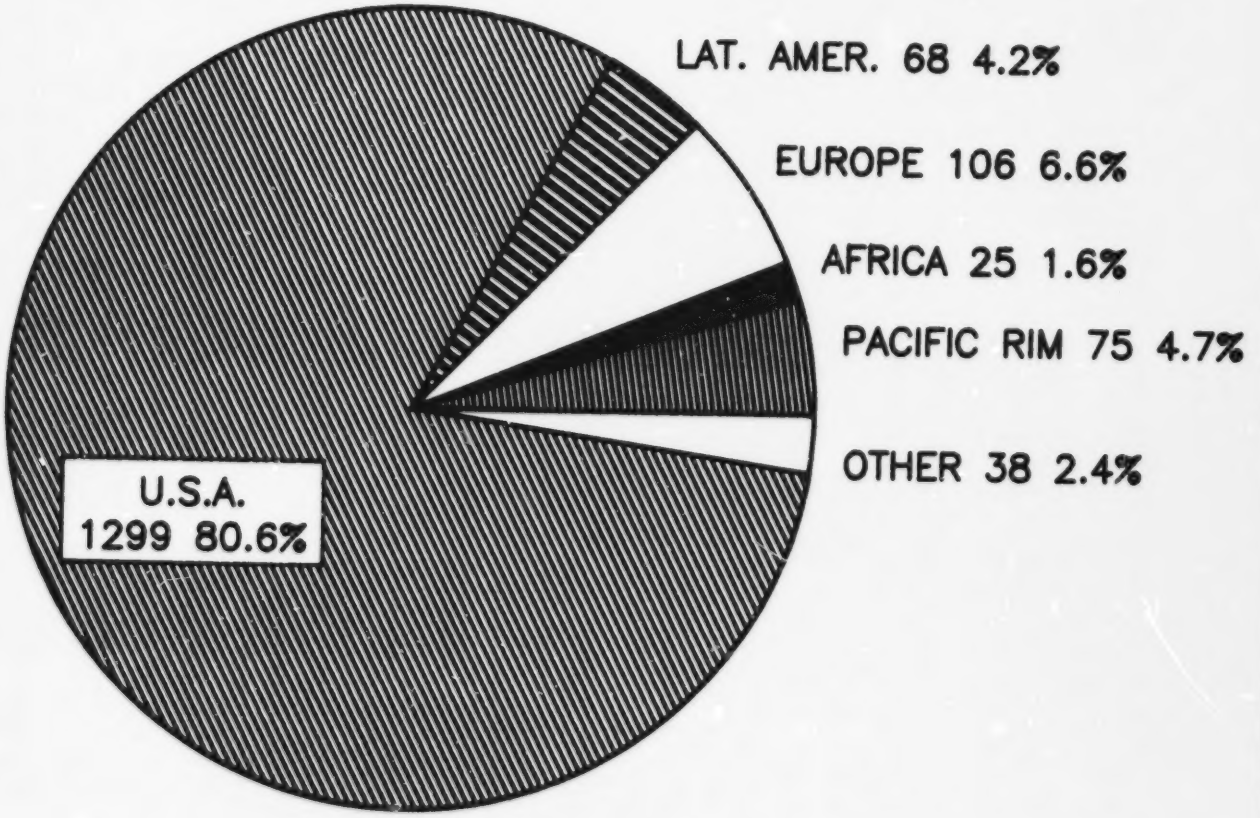
The Manitoba Government has, therefore, consistently supported proposals that would secure and extend trade. This a position that Manitoba has advanced at a series of national fora, most notably in joint position statements which came out of the Western Premiers' meeting in Kelowna in 1984, the First Ministers' meeting in Regina earlier this year, and the Western Premiers' meeting in Grande Prairie, Alberta.

In this context Manitoba has endorsed an early start on a new round of Multilateral Tariff Negotiations, and that approach to trade liberalization remains our first priority. The anticipated 1986 start-up of MTN negotiations should provide an important impetus for strengthening the world trading system, which is a key ingredient for Canadian export success and resulting job creation.

At the same time Manitoba recognizes that we must devote particular attention to trade arrangements with the United States. Because of its size and proximity, the United States is by far the largest market for every Canadian province. Although Manitoba exports to markets in Europe, Latin America, and the Pacific Rim, as illustrated in Figure 3, the U.S. market alone absorbs over 80 per cent of our exports on a province of lading basis.

While Canada is not the major contributor to the current U.S. trade deficit, our industry is inevitably affected by protectionist actions in the U.S. Potential implications for the Canadian economy and Canadian jobs are far-reaching. Countervailing duties on Manitoba hog exports and action by some U.S. states to prevent entry of Manitoba livestock are just two recent examples of U.S. protectionism. These two cases are an on-going concern to Manitoba and have been the subject of several meetings between the Government of Manitoba and U.S Governors and Congressional representatives.

MANITOBA'S MAJOR MARKETS 1984



$ MILLIONS & PERCENT

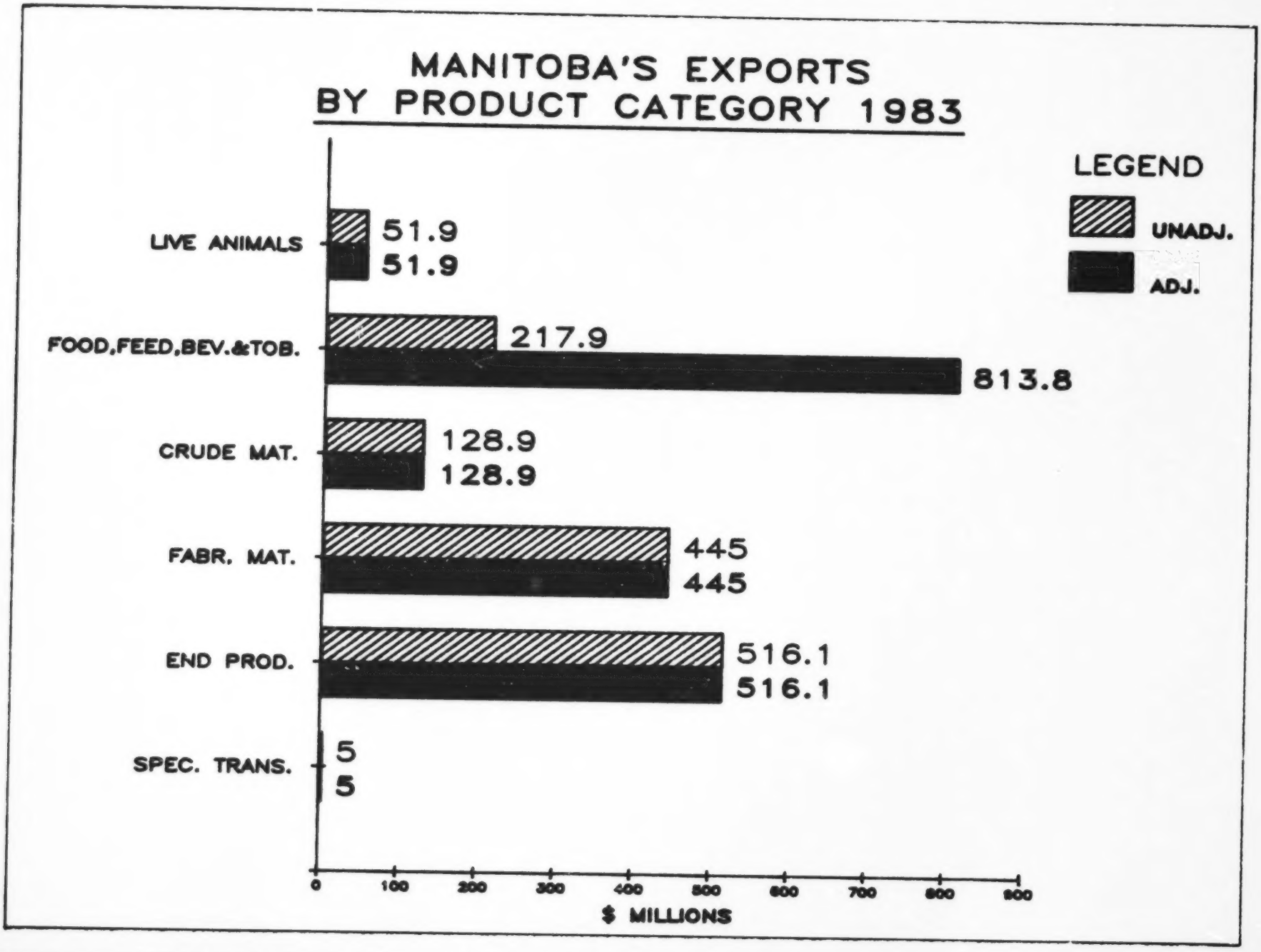
NB. INCL. GRAINS LOWERS USA SHARE TO 60/65%

FIGURE 2

MANITOBA'S MAJOR EXPORTS
(1984)

Product/Commodity (1983 rank)		Value ($ millions)
1)	Agricultural Machinery (1)	$ 147.5
2)	Electricity (2)	94.5
3)	Motor Vehicle Parts (4)	79.9
4)	Aircraft Assemblies & Parts (6)	68.8
5)	Computers & Parts (5)	66.2
6)	Red Spring Wheat (-)	66.0
7)	Lumber (7)	64.5
8)	Swine (14)	57.6
9)	Newsprint (13)	46.0
10)	Nickel (8)	42.2
11)	Cattle (19)	35.6
12)	Corn (-)	34.8
13)	Buses and Bus Chassis (9)	33.7
14)	Zinc (16)	30.8
15)	Telephone Equipment & Parts (18)	28.5
16)	Flaxseed (11)	26.5
17)	*Gasoline (10)	24.4
18)	Parts & Accessories for Agricultural Machinery (20)	23.6
19)	Pork, Fresh or Frozen (-)	20.8
20)	*Crude Petroleum (15)	19.1
21)	Wire & Cable (-)	15.7
22)	Railway Track Materials (-)	14.1
23)	All other	570.5
		$1,611.3

* Not of Manitoba Origin


MANITOBA'S EXPORTS
BY PRODUCT CATEGORY 1983
LEGEND
UNADJ.
ADJ.
LIVE ANIMALS
51.9
51.9
FOOD,FEED,BEV.&TOB.
217.9
813.8
CRUDE MAT.
128.9
128.9
FABR. MAT.
445
445
END PROD.
516.1
516.1
SPEC. TRANS.
5
5
0
100
200
300
400
500
600
700
800
900
$ MILLIONS

Given these concerns, and given the opportunities which improved access to the U.S. market offers, Manitoba joined with other provinces in supporting a proposal to examine the benefits and disadvantages of a Canada/United States trade liberalization arrangement.

Over the past several months, The Manitoba Government has been engaged in an exercise to examine the potential implications of a bilateral trade agreement with the United States. We have looked at the issue from the perspective of Canada as a whole, but our particular concern, of course, has been the Manitoba perspective.

This examination is on-going and will continue, both internally and in consultation with a wide variety of non-governmental groups in Manitoba. Within the Manitoba Government, an inter-departmental working group has been established to co-ordinate research efforts as detailed sectoral issues arise in on-going discussions on a bilateral trade agreement. The Manitoba Government has made the results of its preliminary research available publicly, and these discussion papers are providing a starting point for Ministerial consultations currently underway with business, labour and farm groups in the province.

Despite the preliminary nature of this research, several important conclusions have emerged. Chief amongst these is the conclusion that, although there is potential for real gain from a conditional trade agreement with the United States, the net benefits are not likely to be so large or so immediate as some have claimed.

Two important implications follow from this.

First, it is important to recognize that Canada <u>cannot afford to concede too much</u> in negotiations.

The danger of over-estimating the net benefits to Canada of a bilateral free trade agreement is that we will concede too much in negotiations, in an overly zealous attempt to seal an agreement--any agreement--at any cost.

Second, it is important to recognize that a bilateral trade agreement will not provide a solution to all our economic problems.

There have been some rather extravagant claims made about the gains to be achieved through a bilateral free trade arrangement. The danger in this attitude, additional to the danger of conceding too much in negotiations, is that a bilateral trade agreement will become the centerpiece, or worse yet the sole content, of national economic policy for tackling serious problems such as employment, slow economic growth and regional disparities

Manitoba rejects the notion that free trade will result in enormous, measurable benefits and solve a whole series of problems in Canada, from productivity growth to job creation. Those challenges will require continued priority attention regardless of our progress on bilateral trade arrangements.

Consequently a bilateral trade agreement cannot and must not be seen as a substitute for strong job creation efforts or regional economic development policies, or as a substitute for other economic development and industrial development policies. Trade plays an important role in the Canadian economy. Expanded trade can make a potentially important contribution to the Canadian economy. But the benefits from a bilateral trade agreement will be neither automatic nor dramatic. Both sides in the negotiations must recognize the on-going need for, and the validity of, comprehensive national economic development programs which do not specifically subsidize exports. This includes especially regional development programs, a national industrial strategy, and investment policies.

BACKGROUND

Manitoba recognizes that the question of the impact of a bilateral trade agreement is a difficult and complex one. The costs and benefits of protection and free trade have been debated in Canada since long before Confederation. As Prof. Clarence Barber points out in a report prepared at the request of the Manitoba Government: "There can be no doubt that a good deal of uncertainty exists as to what these effects would be. Estimates of different economists vary substantially and the economic basis on which these estimates are made are far from precise."

Attempts to produce quantitative estimates of the costs and benefits of freer trade are comparatively recent. The first attempt was made by John Young for the Royal Commission on Canada's Economic Prospects in 1957. As part of his work for the Gordon Commission, Professor Young estimated that the removal of the Canadian tariff would add about 3.5 percent to the real income of Canadians. This estimate was arrived at by comparing Canadian prices of all products imported with the price in their country of origin. The difference between these two prices net of the tariff was applied to the volume consumed. This was considered to give an estimate of what Viner had called the "cash cost of the tariff", or the amount Canadians could have saved if they had been able to import the goods duty free.

A few years later Professors Paul and Ron Wonnacott added to this an estimate of how much Canada would benefit if the U.S. tariff against Canadian goods was removed as well. They argued that free trade with the United States would enable Canadian manufacturing industries to re-organize for sale in the U.S. market. The economies of scale they achieved in this way would increase Canada's real income by about 6 percent according to their estimate. Thus, the creation of a Canada-U.S. free trade area, they argued, would increase Canada's real income by between 10 and 11 percent. Their estimate did not involve any detailed industry by industry estimate but was based on the simple assumption that Canadian productivity levels in manufacturing would rise

to U.S. levels and this would increase Canadian wage levels by an amount equal to 6 percent of Canadian output. This, when added to Young's estimate of 3.5 percent which they raised to 4.5 percent, gave them their estimate of 10.5 percent.

Since that time the size of the Canadian market has grown substantially. Canada's real national product increased 3.5 times between 1954 and 1984, and there has been a major reduction in Canadian and U.S. tariff levels. In particular, the creation of the U.S.-Canada Auto Pact has resulted in a major transformation of the car industry.

The Wonnacott estimate has been criticized on the grounds that economies of scale are only one of several factors which contribute to increases in productivity. Other factors are the quality of management, the education level of the labour force, the promptness with which new technology is adopted, and costs related to climatic factors. Thus, there is no presumption that free trade would cause productivity levels in Canadian manufacturing to rise to U.S. levels.

The most recent estimate of the effects of bilateral free trade between the U.S. and Canada is contained in a major monograph and several supplementary papers by Richard Harris. Harris constructed an applied general equilibrium model which incorporates assumptions with respect to economies of scale and imperfect competition. Using tariff levels in effect during 1971 and estimating the tariff equivalent of non-tariff barriers, he calculated that the complete elimination of tariff and non-tariff barriers between Canada and the U.S. would increase Canada's real income by about 9 percent. This result is largely dependent on the assumption that increased specialization of Canadian manufacturing which would result from increased exposure to U.S. competition, and that access to the U.S. market would yield quite large economies of scale.

Harris's model also projects a 5.5 percent increase in employment in Canadian manufacturing and an overall increase for the Canadian economy of 13 to 15 percent in labour income. Average labour productivity in all sectors is projected to increase by 30 percent. Average output per firm in manufacturing would increase by 224 percent and the number of firms would decline by nearly half. Canada's total trade with the United States would almost double.

Although the Harris study has received a good deal of attention, it seems clear that his model has some serious limitations which make it difficult to assess what validity to attach to the results. In particular:

a) Estimates of economies of scale are highly uncertain and may in fact be lower than Harris assumes.

b) Since many of the same multi-national firms operate in both Canada and the United States and a few firms may dominate many major industries, there can be no presumption that removal of the U.S. and Canadian tariffs will make all Canadian manufacturing industries competitive. In the farm machinery industry, for example, free trade between the two countries appears to have had little effect on concentration levels in the industry.

c) Because the model assumes full employment, no allowance is made for the possibility that some industries might simply disappear from the Canadian scene, their economic location in Canada being no longer competitive within the larger North American economy. In the United States the share of total manufacturing has been increasing in the Southern and Western states. This pattern of growth raises doubts about the long term viability of Canadian plant locations in a continental free trade zone.

d) As a result of the Tokyo round of tariff negotiations under G.A.T.T., tariff levels are now substantially lower than those incorporated in the Harris model. For that reason, it is not clear how much of the Harris result is still applicable.

Some of the more detailed results of the Harris model raise some questions about the potentially disruptive effects of a free trade area. Employment is projected to decline 38 percent in furniture, 35 percent in non-agricultural machinery, 27 percent in farm machinery and 23 percent in electrical products. In contrast, employment is projected to increase by 259 percent in clothing, 150 percent in

textiles, 48 percent in knitting, 59 percent in transport equipment and 31 percent in paper and allied products. Given the highly regional nature of some of these industries, changes of this size suggest the potential for a far reaching impact on employment in particular cities and towns. Moreover, some of the largest employment increases are in the industries most vulnerable to offshore competition.

It is also clear that a doubling in the volume of Canada-U.S. trade would greatly reduce the independence of Canadian fiscal policy. A greatly increased number of Canadian firms would become primarily dependent on demand levels in the United States rather than in Canada. At the same time, changes in Canadian demand levels which might result from a Canadian fiscal stimulus would have their major impact upon employment in the United States. Limitations on Federal fiscal policy would be similar to those which now confront provincial fiscal policy.

A comparison of the Harris model estimate with an alternative estimate obtained from a University of Michigan model underlines the amount of uncertainty involved in these forecasts. Both models use data in 1976 prices. The Harris model incorporates economies of scale effects and is based on 1971 tariff levels including an allowance for the tariff equivalent of non-tariff barriers. The Deardorff-Stern model excludes economies of scale effects and is based on 1987 tariff levels without any allowance for non-tariff barriers.

The Deardorff-Stern model estimates that multilateral free trade would increase world exports by $29 billion with Canadian exports increasing by just $1.7 billion. The Harris model estimates that multilateral free trade would increase Canadian exports alone by $44 billion. Much of this difference results from Harris's assumption that Canadian manufacturing industry would become much more specialized so that there would be a large increase in both Canadian exports and imports.

A critical view of the Harris results might well demand answers to the following questions:

a) Why would the major multi-nationals who control access to technology, equity capital and marketing channels choose to build new plants in Canada in the face of increasing wage rates and falling profit margins? Would they not prefer to locate their new plants in Mexico or Brazil or Spain or any one of a number of other countries where wage rates are much lower than they are in Canada and where governments often provide generous incentives to induce the location of manufacturing plants in their country and offer preferential access to the Canadian and U.S. markets?

b) If foreign multi-nationals did not choose to make the new investments could we count on Canadian firms to have the expertise, technology, equity capital and access to marketing channels needed to successfully carry through such a venture?

c) Harris' assumption that Canada has a perfectly elastic supply of available capital seems rather questionable. Much of the capital required would be equity capital and this has always been in short supply and available only at increasing cost. Yet the model envisages very large capital investments. In one model where completely free trade is assumed, capital imports into Canada are estimated to increase from $2.1 to $14.4 billion. Can we count on this kind of capital availability? The Canadian brewers have estimated that some $2 billion would be required to fund the rationalization of their industry if a Canada-U.S. free trade area were created. They suggest that this would require massive government funding.

d) The required rationalization of Canadian manufacturing would impose significant re-adjustments even on the large U.S. economy without the prospect of substantial U.S. benefits. In terms of 1985 prices the Harris model envisages an increase in U.S. imports from Canada on the order of $100 billion, much of it in particular industries. Is there any prospect that the U.S. would willingly accede to such a major re-adjustment to their economy?

e) Who would bear the re-adjustment costs? Presumably the major changes required would make significant amounts of existing capital obsolete.

f) The assumption that all the productivity gains that accrue from economies of scale would accrue to labour in the form of higher wages or to Canadian consumers in the form of lower prices seems questionable. Even if this were true in the longer run, in the short run many of these firms might be in a position to supply the Canadian market from existing plant capacity. It is reported that the U.S. brewing industry for example, has excess capacity equal to about three times the size of the Canadian market.

g) A number of Harris's results seem implausible or their basis has not been clearly explained. For instance, one of his papers shows a 20 percent increase in productivity and a 27 percent decline in employment in the agricultural equipment industry even though the industry already has almost completely free trade. Similarly, the transportation equipment sector is assumed to double its output, increase its productivity by 27 percent and its employment by 59 percent even though the important automobile and parts industry already benefits from a free trade arrangement. Or to take another instance, there seems to be no allowance for industries which are essentially local in their orientation because of transport costs or the need for prompt delivery. There is no reason to expect a change in the way potato chips are produced in Edmonton or the way the Winnipeg Free Press is printed. The study makes no reference at all to transport costs or the trade-off that may be imposed by them.

To sum up, a skeptical view of the Harris model might well conclude that the potential benefits to the Canadian economy from a U.S.-Canada free trade area are exaggerated and that the transitional adjustment costs underestimated. The Macdonald Commission estimated the benefits of a Canada-U.S. free trade area to be in the range of a 3 to 8 percent increase in G.N.P. The foregoing analysis suggests that the gains may be closer to the lower end of that range rather than the higher end.

In arriving at some assessment of the effects to be expected from the creation of a U.S.-Canada free trade area it is necessary to make some evaluation of the tariff levels that will exist as of 1987, the year in which the Tokyo round of tariff reductions will be completed. By 1987 it is estimated that the U.S. average tariff on imports subject to duty will be about 4 to 5 percent, similar tariffs in Japan and the European Economic Community will be from 5 to 7 percent, and Canadian average tariffs will be from 9 to 10 percent. At that time, it has been estimated that about 80 percent of Canada's exports to the U.S. will enter duty free, a further 15 percent will encounter duties of 5 percent or less and only 5 percent will face still higher duties. However, these data can be misleading since if the duties above 5 percent were removed there might be a substantial rise in the volume of exports in these sectors. In some sectors U.S. tariffs are still relatively high and for some products even a tariff of 2 or 3 percent can be high enough to prevent the development of a resource processing industry in Canada because the effective tariff rate on value-added may be much higher than this.

A better indication of 1987 tariff levels in Canada and the United States are those provided by so-called basket clauses in tariff schedules. These are tariff items designed to cover manufactured products not yet developed or classified, usually specified on the basis of the products material content. The average 1987 rate for this category covering 7 different items was 10.2 percent for Canada and 5.5 percent for the United States. The range of rates for Canada was from 9.2 to 13.5 percent and for the U.S. from 3.7 to 6.6 percent. These are nominal rates. Effective rates on value-added could be expected to be somewhat higher than this. Still, these rates are very much lower than those which prevailed at the end of World War II.

Several economic studies have examined the regional impact of the Canadian tariff. A study by Shearer, Young and Munro published in 1971 estimated that as of 1963, a North Atlantic free trade area would have increased the income of British Columbia residents by about 5.5 percent. About one-third of this gain was related to the higher prices paid on tariff protected goods produced in British Columbia. Most of the remainder reflected the higher prices paid for goods produced in Ontario or other parts of Canada. Since that time the Canadian market has increased in size, Canadian tariffs have declined and the auto-pact has greatly reduced the relative price of automobiles. Thus, if this estimate were being updated as of 1987, it would be much lower than 5.5 percent, perhaps in the range of 2 to 3 percent. The authors did not think there would be a significant effect on the amount of employment in British Columbia.

In a more recent study for the Economic Council of Canada, using data for 1969, Hugh Pinchin estimated that a bilateral free trade arrangement with the United States would cause a loss in manufacturing employment of about 1.2 percent. For the Prairies he placed the loss at just 0.7 percent. These estimates did not make any allowance for the effects of production and employment gains as a result of economies of scale made possible by access to the large U.S. market and made only limited allowance for possible trade diversion effects. Trade diversion would occur if Canadian firms increased their sales in the United States at the expense of third countries.

Applying these data to Manitoba, one can anticipate a gain to provincial residents in the range of 2 to 3 percent of income as a result of lower prices for manufactured goods. The effect on employment in Manitoba's manufacturing industries is more difficult to assess. The Harris study anticipates strong gains in production and employment in clothing, textiles, transport equipment and paper and allied products. Even if these gains are less than estimated, some of these industries in Manitoba might make significant gains with tariff -free access to the large U.S. market. It is possible that after the adjustment period was complete employment gains in Manitoba's manufacturing might be as large as or larger than the employment losses that might occur for particular firms or sectors.

In an attempt to get a handle on this question, the Manitoba Government commissioned a survey which involved telephone interviews with nearly 400 of Manitoba's largest manufacturers. There are approximately 1,500 manufacturers in Manitoba. The survey focused on the 485 Manitoba firms with 20 or more employees. The response rate was 81 per cent of this target population. The 391 respondents account for 78 percent of total manufacturing employment in Manitoba.

Of particular interest was the response to the question: How would you respond to free trade with the U.S.? The largest number of respondents--37 percent--said there would be no change in their operations. The next biggest group--30 percent--didn't know how they would respond. A healthy but unspectacular one-quarter said they would increase investment, as compared to 3.8 percent who said they would terminate their operations. Out of 485 firms, a termination rate of 3.8 percent would translate into 18 closures, as compared to 118 firms which would increase investment. In other words, for every firm which expected to close or reduce business operations, 6 or 7 expected to expand their operations.

This suggests one approach to estimating the employment effects of a bilateral trade arrangement on Manitoba manufacturing. Using somewhat imprecise data on employment by firm, it can be estimated that free trade would result in the loss of some 1,700 to 2,100 manufacturing jobs due to plant closures. This can be translated into an average job loss of 170 to 210 per year over ten years. The firms which indicated they would likely increase investment collectively have between 12,000 and 17,000 employees. Thus, the latter will have to increase their employment by somewhere between 10 and 18 percent (i.e. one to two percent per year) to make up for the jobs lost through closures. This is a very rough estimate, but a job increase of this magnitude is not an unreasonable expectation.

Of course, part of the job loss might well be made up by new firms established to take advantage of new opportunities opened up by trade liberalization. Other jobs lost in manufacturing might be replaced by new jobs in other sectors. The above estimate of job loss amounts to 2.9 to 3.5 percent of total manufacturing employment in Manitoba, or approximately one half of one percent of total employment in the Manitoba economy.

Based on this survey it can be said that free trade would not likely result in any net loss of jobs in Manitoba manufacturing, but neither is there any evidence from the survey that there would be a significant or noticable increase.

Manitoba recognizes that more work remains to be done. A bilateral trade agreement will have to take force in a stable atmosphere extending over an absolute minimum of ten years if it is to be of any benefit to Canada. If that agreement collapses after we have begun the adjustment process, or if the adverse effects begin to outweigh the benefits due to the lack of careful planning, we would be better off not to start. We are approaching a concord that requires careful evaluation, discussion and negotiation. If that cannot be achieved, we would have to question the process.

The Government of Manitoba is in the process of examining the costs, benefits and implications of a bilateral trade agreement as it might affect other, non-manufacturing sectors in Manitoba. A study recently prepared for The Prairie Pools concludes that western agriculture would realize net benefits as a result of freer trade, but that some agricultural sub-sectors would suffer significantly. More work remains to be done on this important issue. Research has been initiated to examine other primary sectors and the service sectors. In addition there will have to be a more detailed examination of implications for specific manufacturing sectors, especially for those that research to date has indicated might be most adversely affected.

PRIORITIES AND RECOMMENDATIONS

Manitoba's position can be summarized by saying that we can expect only modest net benefits from a Canada/U.S. trade agreement and that consequently Canada must adopt a balanced and cautious perspective in approaching any such trade arrangement. Since the benefits will be modest, it is important that Canada and all provinces agree that there are certain things we cannot afford to concede in negotiations:

First, Canada's social programs such as Medicare and unemployment insurance must not be compromised. Americans representing certain sectors have argued that these programs are actually subsidies to Canadian businesses, but they are too important and too highly valued by Canadians for them to be truncated in return for the uncertain benefits of freer trade.

Second, stabilization programs and orderly marketing arrangements for the agricultural sector must be maintained. Canadian farmers fought long and hard for these important programs, and free trade could not possibly compensate farmers for their loss.

Third, there must be nothing in a free trade agreement which threatens or weakens Canadian cultural endeavors. Manitoba fully supports the position endorsed by Federal and Provincial Ministers of Culture at their last meeting in Halifax. Cultural sovereignty is at the very heart of Canada's existence as a country. In our desire to secure the potential economic benefits of a bilateral trade agreement, it is essential that we not compromise or in any way inhibit our ability to pursue an independent cultural policy in Canada.

Fourth, an adequate adjustment period must be incorporated into any agreement, and detailed consideration must be given to the establishment of adequate adjustment mechanisms before negotiations become advanced, so that these mechanisms can be put forward at an early stage for incorporation in any agreement.

One conclusion that emerges clearly from all research to date is that there will be significant adjustment costs associated with any bilateral trade agreement. From the outset Manitoba has made it clear that support for a bilateral trade arrangement is conditional upon an extensive period of adjustment being provided for industry sectors and workers adversely affected by new trade arrangements.

We note that the Macdonald Commission explicitly recognized that Canada would have to bear "proportionately greater adjustment costs" than the U.S. in any bilateral trade arrangement. Some of the suggestions of the Macdonald Commission in this regard, including the idea of a longer adjustment period for Canada than for the U.S., and of contingency protection provided by a joint Canada-U.S. Trade commission, merit further consideration at an early date.

But there is a need to go beyond the observations of the Macdonald Commission. We regret that the Commission did not choose to place more emphasis on the fact that, although there will be some adjustment by all regions as a result of more liberalized trade, the adjustment costs will by no means be equally distributed throughout Canada, and that the ability of different jurisdictions to bear these costs varies considerably.

This leads to the final two points on which Manitoba wishes to place special emphasis.

1. Regional development initiatives and programs must be maintained and, indeed, strengthened, as a component part of any bilateral trade package. While some aspects of regional development programs--DRIE grants, for example--have been seen by U.S. interests as subsidies which are inconsistent with free trade, Canada should take the position that only outright export subsidies should be prohibited in a trade agreement. A DRIE grant is potentially available to any firm in Canada which meets certain conditions, whether or not it exports its products. Such programs cannot be considered export subsidies.

It is imperative that both sides recognize the validity of comprehensive economic development programs, including national industrial strategies and regional development programs which do not directly protect specific products or subsidize exports.

Furthermore, the prospect of a bilateral trade agreement has considerably heightened the need to address regional development issues in Canada in a clear and direct manner. In the context of changing bilateral trade arrangements, regional development implications have now become a priority issue on the national agenda. Manitoba is of the opinion that it is now of the utmost importance that all provinces and the Federal Government make a clear statement of joint commitment to evolving a strong regional economic development strategy as part of the adjustment process that must accompany trade liberalization in Canada.

2. Finally, Manitoba hopes that all provinces and the Federal Government will agree that a Canada/U.S. Concord on Trade Access Stabilization should be advanced as one of the first items to be discussed should formal trade negotiations with the United States proceed early next year.

Such a Concord, signed at an early stage in the negotiation process, would have a dual thrust. Firstly, it would formally establish a mutually agreeable joint administrative mechanism and procedure for settling trade disputes that emerge between our two countries during the period it will take to negotiate a comprehensive agreement. This would include settling both current and new trade "irritants" and complaints. Secondly, such a Concord would commit both parties to "best efforts" in attempting to limit any new protectionist measures by either Government during the course of negotiations. This would provide an important signal of mutual good faith as well as providing a concrete achievement early in the negotiation process.

CONCLUSION

In summary, Manitoba is of the opinion that a conditional trade liberalization agreement with the United States could present opportunities for real but modest economic gains for Canada and Manitoba. For this reason Manitoba is prepared to support preliminary exploratory discussions with the United States while consultation with all provinces on benefits, adjustment costs and adjustment mechanisms proceeds. Talks with the U.S. should not proceed on a timetable or in a manner that would jeopardize any potential progress on Multilateral Trade Negotiations. In addition, Manitoba will be seeking firm assurances from the Federal Government that Canadian marketing arrangements and social policies that have been developed over many years will be neither negotiated away nor threatened by a bilateral agreement. Manitoba will also be seeking from the Federal Government their firm commitment to the development of a strong regional economic development strategy that takes the regional implications of trade liberalization explicitly into account. Needless to say, the legitimacy of comprehensive industrial and regional development policies of this type, undertaken by either partner, would have to be explicitly recognized in any bilateral agreement.

In conclusion, it is important to emphasize that in supporting conditional trade liberalization of the type outlined above, the Manitoba Government has adopted a position that endorses neither of the two extremes in this on-going national debate.

Manitoba rejects the notion that free trade will result in enormous, measurable benefits and solve a whole series of problems in Canada, from productivity growth to unemployment. Those challenges will require continued priority attention regardless of progress on bilateral trade arrangements.

At the same time the Manitoba Government also rejects the council of extreme caution that would lead us to pass up any opportunity for conditional trade liberalization with our largest trading partner.

In this regard it is quite correct to point out that there is a range of opinion amongst the provincial governments on this complex issue. It is quite incorrect to suggest that there are only two positions, and the provinces line up on one side or the other. It is more accurate to say that there are differences in degree and conditions of support between the provinces, and some broad areas of agreement as well.

Indeed there is sufficient common ground to give cause for cautious optimism. With a commitment by all parties to some on-going consultation, and to concensus building, there is room to build the united Canadian position that will allow us to conclude a beneficial trade agreement with the United States and pursue increased opportunities for mutually expanded trade. This is not a certainty. But Manitoba is of the opinion that it is an opportunity with sufficient promise to be worth pursuing to the next step.

0979S